

QUALIFIED ZONE ACADEMY BONDS Q & A's

What are Qualified Zone Academy Bonds (QZABs)? The Taxpayer Relief Act of 1997 created QZABs as a financial tool to encourage the formation of partnerships between public schools and local businesses, and provide another source of funds for “high poverty schools”. Certain banks, insurance companies and corporations actively engaged in the business of lending money can receive a tax credit as an incentive to hold these bonds.

What is the purpose of QZABs? QZABs are issued in support of Qualified Zone Academies, schools (or programs within a school) that enter into partnerships with local businesses to enhance the academic curriculum, increase graduation and employment rates, and better prepare students for the rigors of college and the workforce under a plan approved by the local school system. Eligible projects are for the academy or school, and not for the entire district.

How can the proceeds of QZABs be used? The proceeds can be used only for:

- rehabilitating or repairing the public school facility in which the academy is established;
- providing equipment for use at an academy;
- developing course materials for education to be provided at an academy; or
- training teachers and other school personnel in an academy.

Missouri statutes concerning bond issues allow QZABs to be used for only the first two of these four areas.

Does a district have to vote a bond issue to utilize QZABs? Yes, Missouri statutes require bond issues to be submitted to the voters. The percentage of “yes” votes needed to pass the issue would be the same needed to pass any other bond issue voted on that date.

What is the advantage of QZABs over a conventional bond issue? The district or charter school does not have to pay the interest on the QZABs. Interest on the QZABs is paid by the federal government in the form of an annual tax credit to a bank or other eligible financial institution that holds the QZAB.

Can QZABs be part of a larger bond issue? Yes, if the district plans to vote a larger bond issue, the district could request up to \$1.5 million dollars in QZAB authorization. However, for the QZAB bonds all QZAB requirements would apply. This includes all responsibilities with the business partner(s).

Why has DESE limited school districts and charter schools to one project and a total of \$1.5 million dollars? This limitation will allow more schools to participate in the funding.

Does the district have to vote the bond issue before applying for QZAB authorization? No, districts have a specified time period to pass the bond issue. See Qualified Zone Academy Bond Information – Missouri Parameters.

What happens if the district fails to pass the bond issue? The bond authorization is cancelled and other school districts or charter schools may be eligible to apply to receive the authorization.

Do QZABs qualify for participation in the Missouri Direct Deposit Program? It is unlikely that QZABs would be structured as general obligation bonds which would be necessary to qualify for the Missouri Direct Deposit Program. If the district is interested in having a QZAB qualify as a general obligation bond the district should seek advice in this matter from the district's Bond Counsel and Financial Adviser.

Are all Missouri schools eligible for QZABs? No, the school must be in an Empowerment Zone, Enterprise Community or have a reasonable expectation that at least 35 percent of the school's students will be eligible for free or reduced price lunches as authorized by the National School Lunch Act.

Can charter schools receive QZABs? Charter schools are eligible to apply if they meet the criteria specified in the previous answer. A charter school must provide information on the school's debt and repayment plan, including how the debt will be paid if the charter school closes before the final payment is made. A charter school considering applying should contact the School Governance Section at (573) 526-6949 for the list of required documents.

What are the responsibilities of the business partner(s)? The business partner(s) must work in cooperation with the school to design an education program to enhance the academic curriculum, increase graduation and employment rates and better prepare students for the rigors of college and the workforce. The business partner(s) must make a contribution to the program of not less than 10 percent of the proceeds of the bond. A written agreement from the business partner(s) is required. This agreement should specify that the business partner(s) will provide the school with the eligible contribution(s), what the contribution(s) consist of, and the value of the contribution(s). The commitment from the business partner(s) should not be contingent upon the school making future purchases from the business partner(s). If a company is applying a service as their contribution to the 10% requirement that the company has previously provided without charge to the district, such qualifying service should not be a service provided to other customers.

What are eligible contributions from the business partner(s)? The following constitute eligible contributions:

- Equipment for use in the qualified zone academy, including state-of-the-art technology and vocational equipment.
- Technical assistance in developing curriculum or in training teachers in order to promote appropriate market driven technology in the classroom.
- Internships, field trips, or other educational opportunities outside the academy for students.
- Other property, including cash, or service specified by the Local Education Agency.

What responsibilities does DESE have for QZABs? DESE has the responsibility of notifying all districts and charter schools of the availability of QZAB funds, the eligibility criteria, and the application process. DESE will review the applications and award the QZAB allocation based on the selection procedures detailed in the accompanying document titled Qualified Zone Academy Bond Information.

What responsibilities does the local educational agency have with QZABs? The local educational agency has the responsibility to be in compliance with federal statutes and to meet all requirements of the U. S. Department of Education and the U. S. Department of the Treasury. It also has the responsibility to be in compliance with state statutes and administrative provisions of the Missouri Department of Elementary and Secondary Education.

Where can I find more information on QZABs? Information can be obtained on the web at www.ed.gov/offices/OVAE/qzabfin.html. Other contacts include: Internal Revenue Service - (202) 622-3701; U. S. Department of Treasury - (202) 622-3721; Missouri Department of Elementary and Secondary Education - Tom Quinn - (573) 526-6949.